



**Revenue Laws Study Committee**  
**Vance Holloman, Deputy Treasurer**

**December 7, 2011**



**North Carolina Department of State Treasurer**  
**Learn. Invest. Grow. Prosper.**

# Outstanding State Debt at June 30, 2011

- General Obligation Bonds
  - General Fund \$4.4 Billion
  - Highway Fund \$0.4 Billion
  - Total GO Bonds \$4.8 Billion
- Special Indebtedness \$2.1 Billion
- Total GO Bonds and Special Indebtedness \$6.9 Billion
  
- Rating agencies describe NC's debt level as "moderate"
- Other Debt
  - GARVEES \$0.4 Billion
  - Guaranteed Energy Savings Contracts \$0.1 Billion
  - NC Turnpike Authority Revenue Bonds \$0.9 Billion



# Conservative North Carolina Debt Management Policies

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- Limited Variable Rate Debt
  - \$355 Million, slightly over 5% of outstanding debt
  - Liquidity provider in place until December 2012
- Short maturities, typically 20 years at max
  - Ten year pay out ratio of 59% at June 30, 2010
- Centralized debt authorization, approval and issuance
  - Uniform debt issuing vehicles
  - GA and COS approval needed to issue GO and special indebtedness



# Conservative North Carolina Debt Management Practices

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- All State supported debt subject to debt affordability guidelines set by Debt Affordability Advisory Committee
  - Measurement of debt affordability is recognized as a key component of strong financial management
- Consolidated debt service appropriation
- NC does not borrow for operations, all outstanding debt is for capital projects
- Debt is issued when needed to cash flow projects
  - Flexibility to use proceeds for authorized projects as needed



# “AAA” States Debt Comparisons

Total State Debt	Debt/Personal Income	Debt per Capita	DS % Gov Expenditures
Delaware	6.2%	\$2,489	5.2%
Georgia	3.3%	1,120	5.3%
Iowa	.2%	73	0.7%
Maryland	3.4%	1,608	4.3%
Missouri	2.2%	780	3.0%
<b>North Carolina</b>	<b>2.3%</b>	<b>765</b>	<b>2.0%</b>
Utah	3.2%	957	3.9%
Virginia	2.1%	895	3.4%
<b>Median</b>	<b>2.8%</b>	<b>\$926</b>	<b>3.7%</b>



# North Carolina General Fund Tax-Supported Debt Statistics

## February 2011 DAAC Study

Projected as of	Debt to Personal Income	Debt per Capita	Debt Service as % DAAC Revenues	10-Year Payout Ratio
6/30/10 (actual)	1.8%	\$638	3.61%	59%
6/30/11	1.8%	\$663	3.62%	63%
6/30/12	1.8%	\$672	<b>4.12%</b>	66%
6/30/13	1.7%	\$641	<b>4.22%</b>	70%



# Special Indebtedness

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- State Issues Two Types of Debt
  - GO – backed by full faith and credit
  - Special Indebtedness – annual appropriation for debt service
- Two Forms of Special Indebtedness
  - “Bonded Indebtedness” – Limited Obligation Bonds (current)
  - “Financing Contract Indebtedness” – COPs, Lease Revenue Bonds (issued through the North Carolina Infrastructure Finance Corporation)



# Amounts of Special Indebtedness Authorized by Purpose

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<b>Projects</b>	<b>Amounts</b>	<b>Percentage</b>
Corrections	\$.8 billion	22%
Psychiatric Hospitals	.4	11%
University	1.6	42%
Parks and Land	.2	5%
Repairs and Renovations	.4	9%
Other	<u>.4</u>	<u>11%</u>
 Total	 \$3.8 billion	 100%





# Current Year Update

- \$400M of Limited Obligation Bonds Issued November, 2011
- Currently \$455.8 M of authorized but unissued special indebtedness
  - No authorized but unissued GO debt
- Purposes of authorized but unissued special indebtedness
  - Psychiatric Hospital \$110.4M
  - Correctional Facilities \$37.4M
  - University Projects \$272.0M
  - Repairs and Renovations \$5.6M
  - Other State Projects \$30.4M



# The State Capital Facilities Finance Act

- Article 9 of GS Chapter 142
- Purpose- To provide financing flexibility to the State and take advantage of changing financial and economic environments in meeting the State's need for capital facilities
- The Act does not authorize the issuance of any debt
  - Established a framework for issuing appropriation supported debt
  - Forms of appropriation supported debt issued under the Act:
    - Lease revenue bonds, certificates of participation and limited obligation bonds
  - Projects and the amount of debt to be issued for each project or category of projects must be authorized by the General Assembly in legislation



# The State Capital Facilities Finance Act

- Steps for the Issuance of Special Indebtedness
  - The General Assembly must specify the project or category of projects and the maximum amount to be issued is in legislation
  - The Department of Administration must determine the need to issue special indebtedness previously authorized by the General Assembly and give notice of that need to the State Treasurer
  - The State Treasurer must consult with the Office of State Budget and Management and determine that adequate revenues will be available to pay the debt.
  - The Department of Administration must request and receive preliminary and final approval for issuance of the debt from the Council of State



# The State Capital Facilities Finance Act

- Advantages of Maintaining the State Capital Facilities Finance Act
  - Funds borrowed may finance any of the projects approved by the Council of State rather than projects authorized by a single legislative act
    - Lowers costs of borrowing and issuance
      - Proceeds used more quickly
      - Standardized process viewed more favorably by the debt market
  - Greater flexibility to refund debt
  - Ability to act more quickly in an emergency
  - Repealing the Act will send the wrong signal to current holders of special indebtedness and potential buyers of any authorized and unissued amounts





**Thank you!**

*Together, we can build and maintain a fiscally strong and prosperous North Carolina.*

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